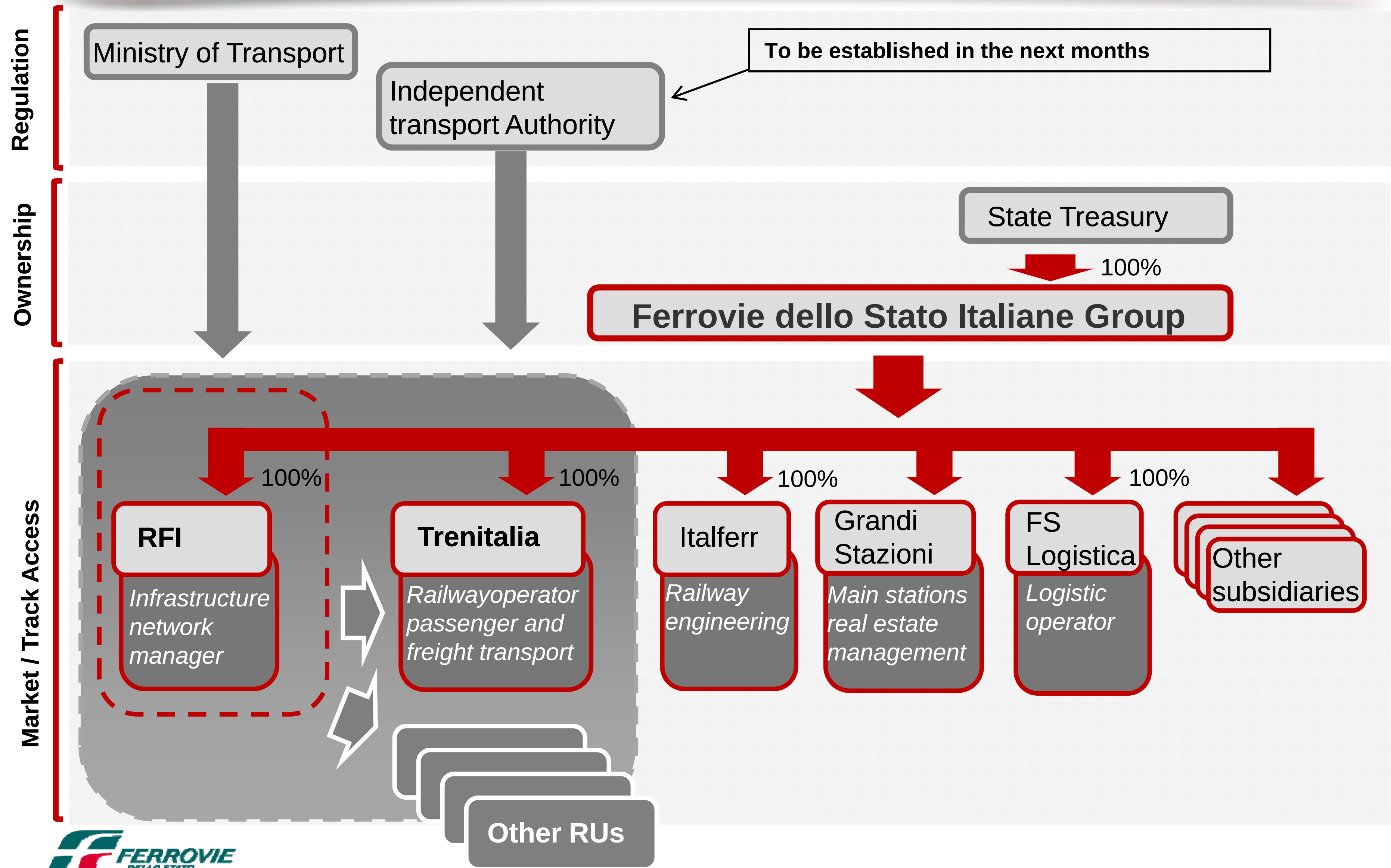
Florence,
19 March 2012

4th European Rail Transport Regulation Forum

20 years of railway liberalisation in Europe: key lessons and future prospects

Barbara Morgante
Director Strategies and Planning

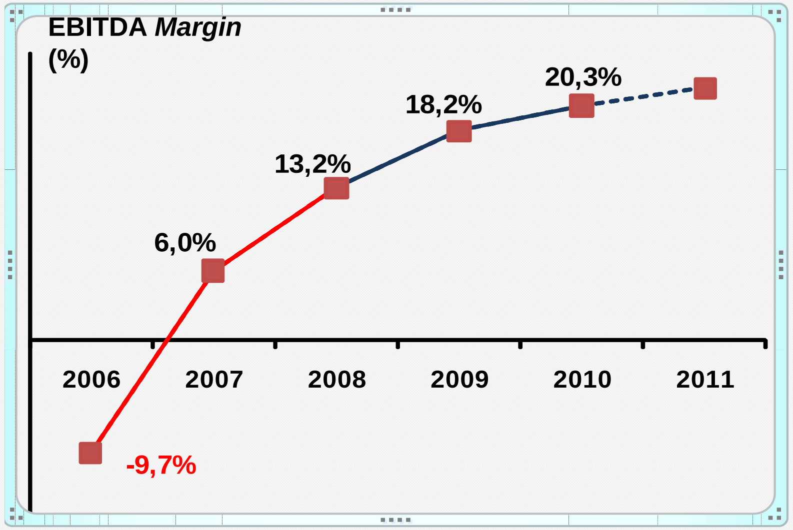
Organizational structure of the Italian rail sector

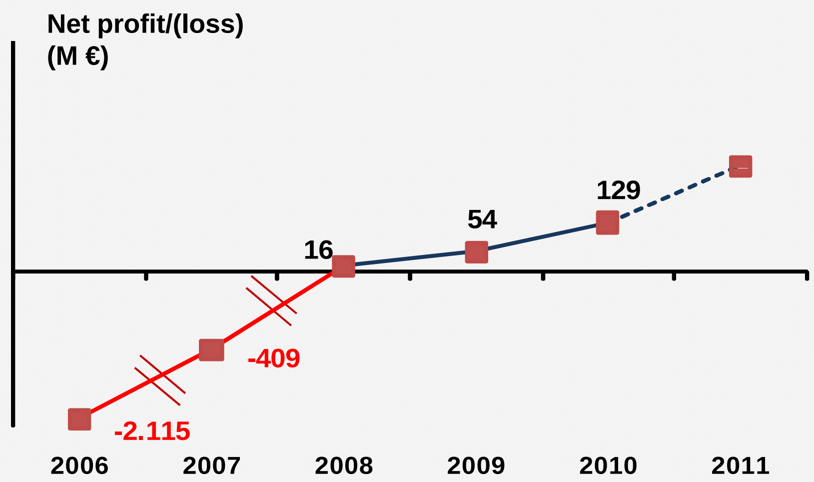


Ferrovie dello Stato Italiane – Key financials

(M€)	2006	2007	2008	2009	2010
Revenues	6.703	7.685	7.816	7.982	7.987
EBITDA	-650	463	1.035	1.450	1.622
EBIT	-1.928	-24	443	435	507
Net profit/(loss)	-2.115	-409	16	54	129

ITA Gaap IAS compliant





Market liberalization: the Italian overtaking

Italian market was one of the first European market to be fully liberalised

Local passenger transport	Medium/Long distance passenger and freight transport
Competition FOR the track	**Competition ON the track**
Public Service Contracts awarded by competitive tendering *(recently confirmed in the “liberalisation law”)*	For international and national transport *(since 2001)*

FERROVIE DELLO STATO ITALIANE

Liberalization effects

In a decade liberalization determined a strong development of competition in the Italian market

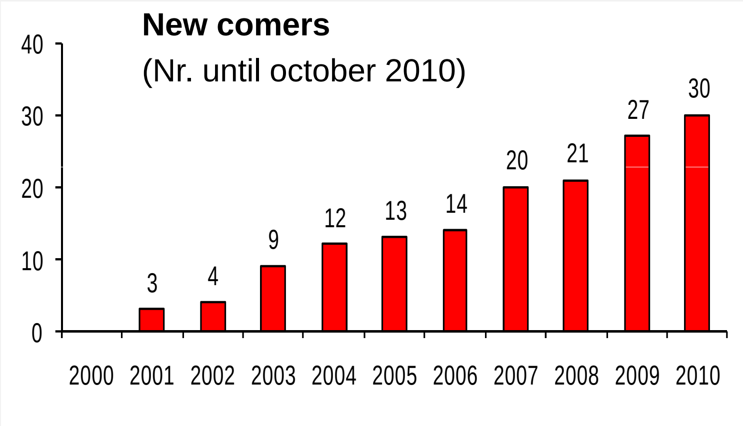
62 Licences

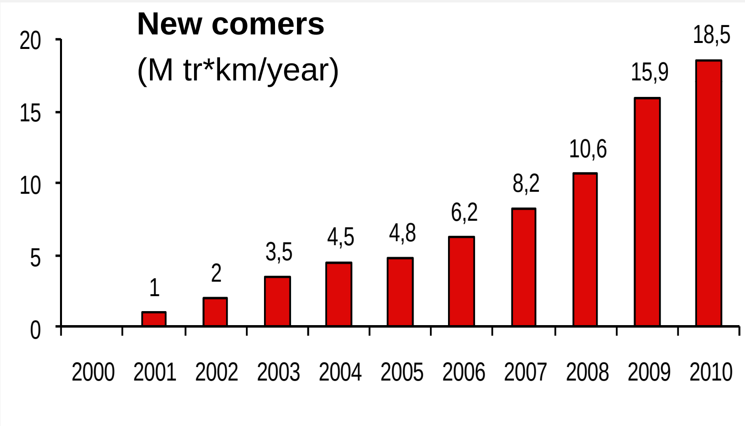
- Freight
- Medium/Long distance passenger
- Local transport

31 Operating Rus

including Trenitalia

9 Framework Agreements

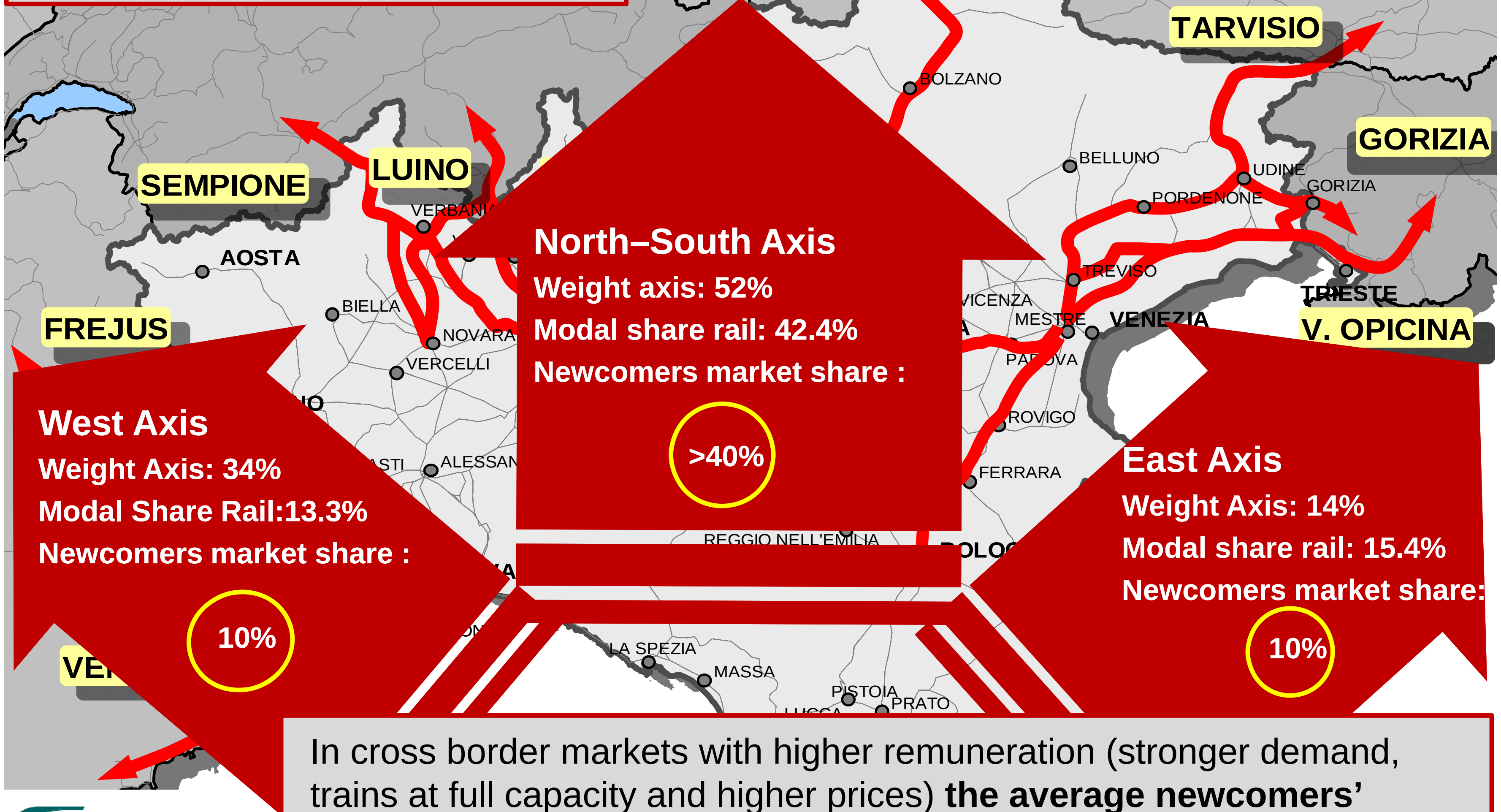




Source: Italian Ministry of Transport

Freight transport

Competition is concentrated on European freight corridors



In cross border markets with higher remuneration (stronger demand, trains at full capacity and higher prices) **the average newcomers' market share is about 30%** ⇨ **They are mainly EU incumbents**

Medium/Long distance passenger transport

The first case in Europe of a private operator on High Speed Rail

- NTV announced to entry on high speed rail market next month
- NTV plans to connect major Italian cities and to reach 20% share of the market by 2015
- NTV is a private Company (but French National Railways (*SNCF*) owns a 20% share)

SNCF, the monopolistic incumbent in France, will entry in the Italian rail market ✓

Trenitalia can not entry in the domestic French market because it is still closed to competition ✗

FERROVIE DELLO STATO ITALIANE

Local passenger transport

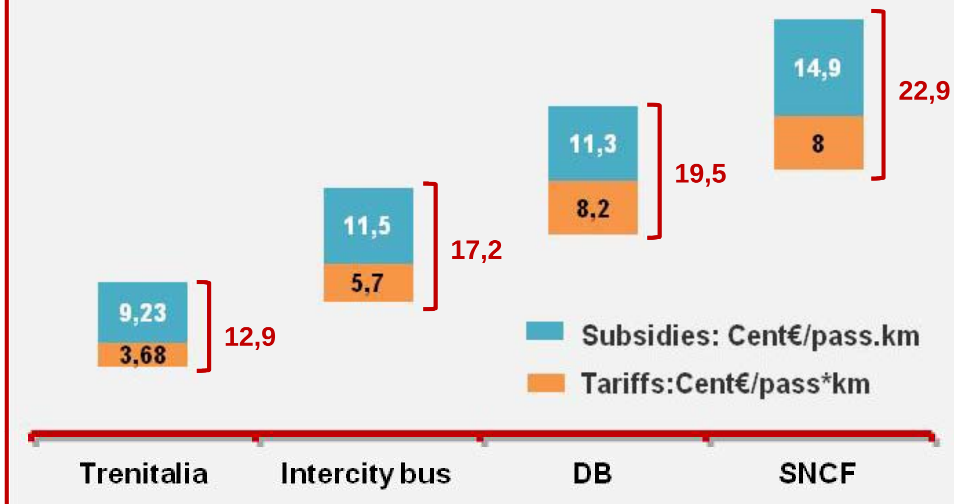
- Public Service Contracts to be awarded by competitive tendering since 1999, but only few Regions launched tenders

- The recent "liberalization law" obliges to award public services by tendering procedures. Direct awarding of contracts for universal services will no longer be allowed

- In Italy the liberalization process, broader than elsewhere, was combined with weak PSO contracts and low subsidies and tariffs

- Public services, operated by Trenitalia, were and still are often undercompensated

Insufficient resources for services and investments



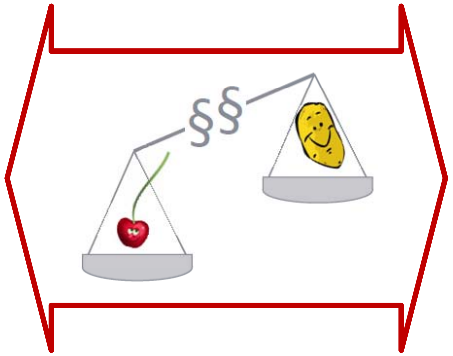
If tenders fail because of resource scarcity willTrenitalia be forced to continue to provide public services?

FERROVIE DELLO STATO ITALIANE

Source: Study on Regulatory Options on Further Market Opening in Rail Passenger Transport – Everis for European Commission, 2010, FSI data

Cream skimming and universal services

New-entrants choose to operate services only on profitable rail routes



Cross subsidisation to finance the universal services will be no more possible for the incumbent

- ❑ Without a clear definition of universal services and a coherent model of contribution by all RUs and/or public financing, the universal services will be reduced

A co-financing system for universal services should be introduced, through royalties on higher profitable passenger transports

- ❑ The role of Regulator should be to guarantee fair competition and social services

In application of Directive 2007/58/EC, the Italian Rail Regulator did not allow a newcomer to operate a new service because it would have compromised the economic equilibrium of a public service contract.

FERROVIE DELLO STATO ITALIANE

The "patchy" situation of EU rail market

The European rail liberalization process realized **by Directives**

flexibility in the application at national level

The current framework is characterized by a non-uniform implementation

Some Member States followed a policy oriented to the **implementation of the "*minimum level*"** necessary to "formally" transpose EU legislation in their national systems

A "patchy" situation

Some Member States proceeded towards the **market opening and elimination of barriers**

Different access conditions to national infrastructures and rail services in EU markets

FERROVIE DELLO STATO ITALIANE

Asymmetric regulation of EU rail market

Substantial differences among EU Member States

Member States are progressing at different speeds. This is especially the case of national passenger transport, which is mostly closed to competition

A "step change" is necessary. The introduction of proper tools to guarantee uniform application of EU rules at national level is needed.

The aim could be achieved through the setting up of a European Regulator for the rail sector

Single European Rail Area: need for an uniform "EU legislation"

FERROVIE DELLO STATO ITALIANE

Choosing the right degree of separation

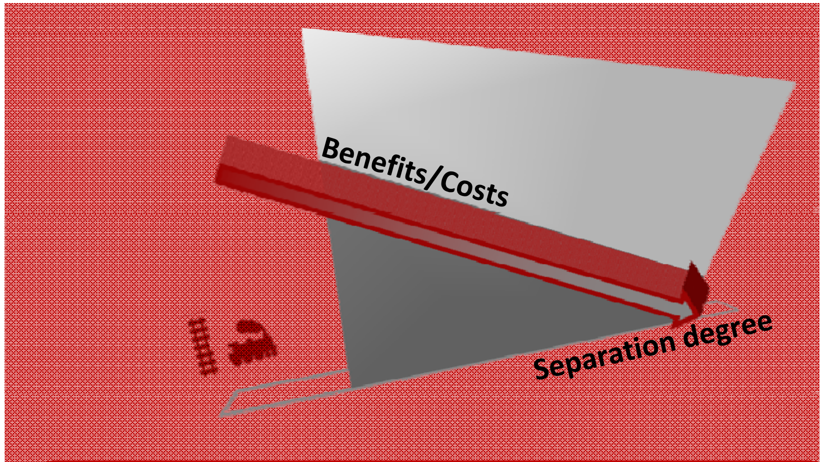
EU is considering whether to make complete vertical separation of rail infrastructure from operations mandatory. Separation issue is also debated in Italy, although the current Italian corporate model is compliant with EU legislation.

In network industries **structural separation** is often considered the ideal option to prevent discrimination and to promote competition. **It's dogmatical!**

Which is the right degree of separation?

Academic literature and governative studies do not reach univocal results.
Other reforms seems to have more significant impacts in rail sector.

Separation is a tricky issue



What is the real impact in terms of the main drivers for expected changes?

The real impact of choice

Main drivers	Impact of separation
Promotion of competition	Structural separation has not produced more competition compared to other regulatory tools (e.g. institution of regulatory authorities)
Stimulating investments/ increasing quality and safety	Better synergies between infrastructure and operations allows faster and more efficient implementation of new technologies (e. g. signaling systems)
Development of the rail industry	In the countries where structural separation was implemented, the national rail industry disappeared

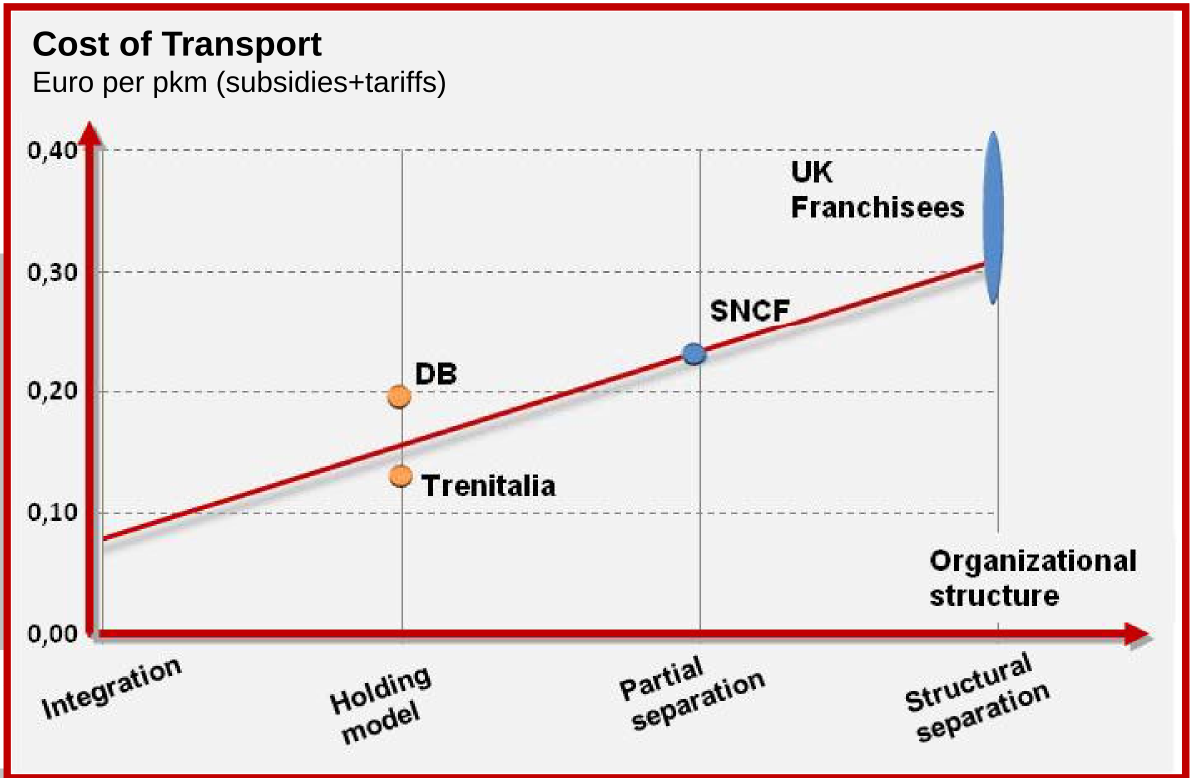
FERROVIE DELLO STATO ITALIANE

The real impact of choice

Main drivers	Impact of separation
Reducing public subsidies to the sector	Structural separation causes a significant increase in public spending (e.g. UK) Countries, that opted for an holding corporate governance, are gradually reducing public expenditure for rail (e.g. Germany and Italy)
Growth in rail traffic	There is no correlation between traffic growth and structural separation: the average market growth in countries that maintained an holding corporate governance was faster than in the separated ones

The effect of structural separation. An example

The costs of universal services for rail user and public sector



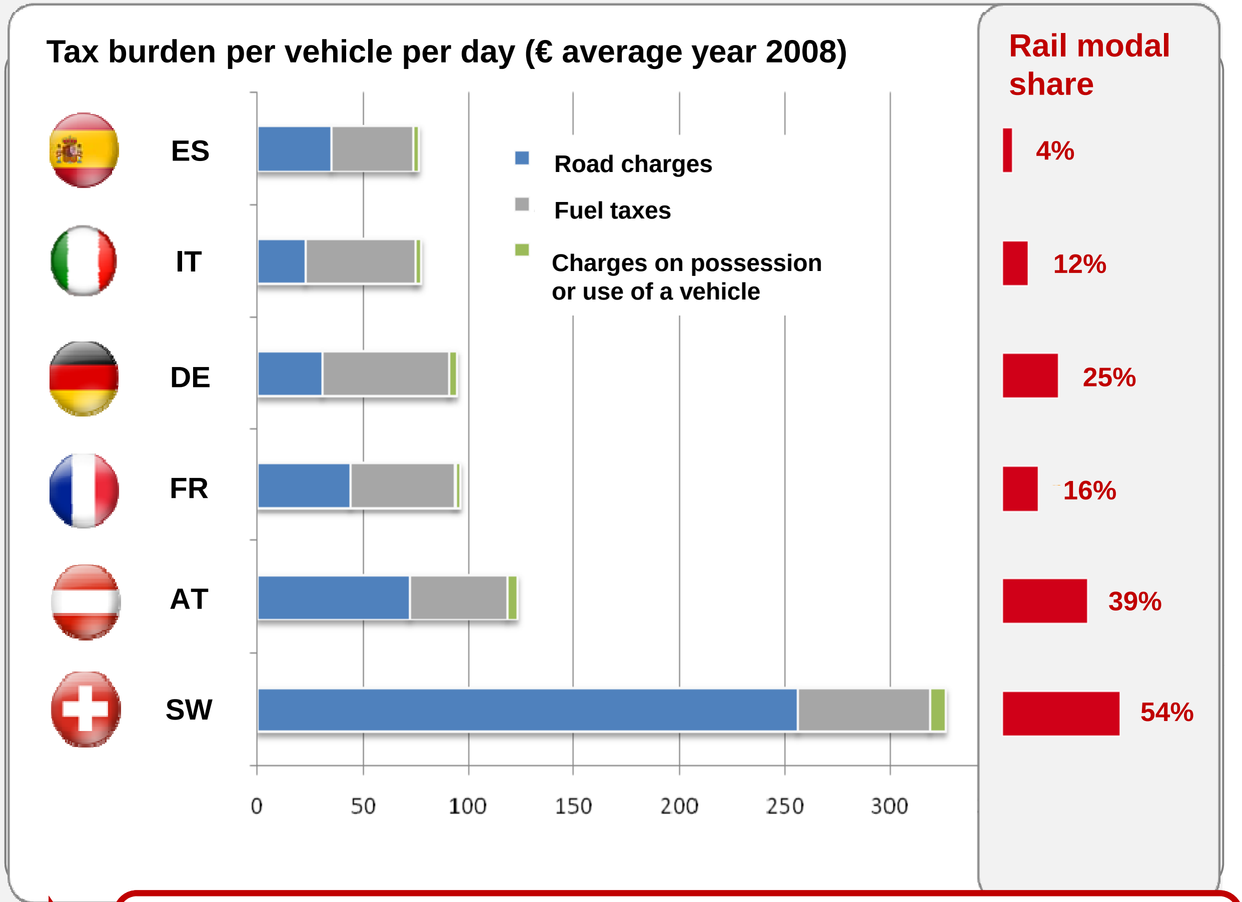
The average total cost increases with the increasing degree of separation

Source: Everis, Study on Regulatory Options on Further Market Opening in Rail Passenger Transport

Promote the modal shift: the real key for success

- In the countries with heavier taxation on road transport vehicles, rail has a higher modal share
- Taxation and charges on road transport vary greatly from one country to another
- There is a positive relation between incentive transport policies and traffic performance by rail sector

Government willingness to support rail



Tax burden on road transport influences competitiveness and modal share of rail sector

Source: ITF Road Taxation Database – European Commission "EU energy and transport in figures" 2010

Conclusions

1. There is not a single European railway area yet. Same access conditions to national infrastructures and rail services are needed in EU. In the meantime reciprocity rules should prevent monopolists from entering liberalized markets

2. The efficiency of rail market mainly depends on stable regulation, fair compensation of public service obligations and promotion of modal shift

3. Vertical integration, competition and positive growth in traffic performance can go hand-in-hand: vertical separation is not the most important factor to promote intra-rail competition and traffic growth

FERROVIE DELLO STATO ITALIANE

Thank you for your attention!